U.S. NUCLEAR REGULATORY COMMISSION CITIZENS' REPORT:

THE FY 2008 SUMMARY OF PERFORMANCE AND FINANCIAL RESULTS

U.S.NRC

United States Nuclear Regulatory Commission

Protecting People and the Environment

MISSION

License and regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment.

VISION

Excellence in regulating the safe and secure use and management of radioactive materials for the public good.

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ABOUT THIS REPORT

This report is a summary of the NRC's Fiscal Year (FY) 2008 Performance and Accountability Report (PAR), published on November 14, 2008. This report is an easy to read format and contains hyper links to the online version of the PAR. In addition, a full copy of the PAR is available on disk located on the back cover.

U.S.NRC
United States Nuclear Regulatory Commission
Protecting People and the Environment

From left to right, Commissioner Kristine L. Svinicki, Commissioner Gregory B. Jaczko, Chairman Dale E. Klein, and Commissioner Peter B. Lyons.

MESSAGE FROM THE CHAIRMAN

I am pleased to present the U.S. Nuclear Regulatory Commission (NRC's) Citizens' Report, a summary of the NRC Performance and Accountability Report. The Citizens' report highlights our achievements in meeting the two strategic goals—safety and security—while adhering to the principles of good regulation—independence, openness, efficiency, clarity, and reliability. Continuing our trend of excellence in reporting, the NRC received a seventh consecutive Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA) for the Fiscal Year (FY) 2007 Performance and Accountability Report.

In 2008, the NRC continued to provide effective and efficient regulatory oversight of the nuclear industry as it embarks upon a period of significant growth and development. The agency is currently reviewing 17 combined license applications to build and operate 26 new nuclear power plants. These proposed nuclear power plants, if approved and constructed, would be the first new plants to be built in over 30 years and are of critical importance to the industry and the Nation. The NRC has streamlined its application process to ensure that nuclear power plants are able to contribute safely to meeting the growing demand for electricity while minimizing the cost and time required to receive regulatory approval for new plants, consistent with safety and security requirements.

In FY 2008, the NRC received the U.S. Department of Energy's application for construction of the Nation's first geologic repository for high-level nuclear waste at Yucca Mountain, NV. The NRC has found that the application is sufficiently complete for the agency to begin its full technical review.

Commensurate with the NRC's programmatic achievements is a commitment to prudently manage the resources entrusted to it by the American public. The NRC continues to position its resources and infrastructure to support its mission to "license and regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment." The NRC is proud to have obtained an unqualified "clean" opinion on the agency's financial statements for the fifth consecutive year. This report demonstrates that the agency's financial and performance data are reliable and complete.

The NRC has also made significant strides in improving its financial systems and business operations. A material weakness related to the Federal Information Security Management Act (FISMA) audit from FY 2007 has now been removed. The NRC continues to evaluate its internal controls and to implement internal control improvements, including those related to financial reporting and financial management systems, as required by the Federal Managers' Financial Integrity Act (FMFIA). Based on these FISMA and FMFIA assessments, I have concluded that there is reasonable assurance that the NRC is in substantial compliance with the FMFIA. In support of the President's Management Agenda, the NRC is currently cross-servicing its human resources, payroll, e-Travel, and accounting services. The agency is also integrating and modernizing its financial systems to enhance internal controls, reporting, and decisionmaking.

The Commission is proud of this year's performance in achieving the agency's safety and security goals and looks forward to continuing its high-quality service to the American public in FY 2009 and beyond.

Dale E. Klein
January 15, 2009

U.S.NRC
United States Nuclear Regulatory Commission
Protecting People and the Environment

U.S. NUCLEAR REGULATORY COMMISSION BUDGET, PERFORMANCE, AND FINANCIAL SNAPSHOT FOR FISCAL YEAR 2008

Who We Are

Mission: The NRC's mission is to license and regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, promote the common defense and security, and protect the environment. For more information, please view the NRC Strategic Plan.

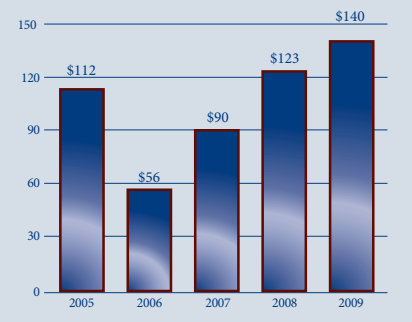
Organization: The NRC is headed by a Commission composed of five members, with one member designated by the President to serve as Chairman. The President appoints each member, with the advice and consent of the Senate, to serve a 5-year term. The Chairman is the principal executive officer and official spokesman for the Commission. The Executive Director for Operations carries out program policies and decisions made by the Commission.

Personnel: The NRC's headquarters office is located in Rockville, MD. Four regional offices are located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The NRC's technical training center is located in Chattanooga, TN. The NRC also employs at least two resident inspectors at each of the Nation's nuclear power reactor sites.

Budgetary Resources: The NRC's budget for FY 2008 was $926.1 million with 3,707 full-time equivalent staff. The NRC recovers most of its appropriations from fees paid by NRC licensees. The chart below titled "Total Spending" represents the net outlay (amount of money not collected by fees) appropriated to the NRC.

Budget Snapshot

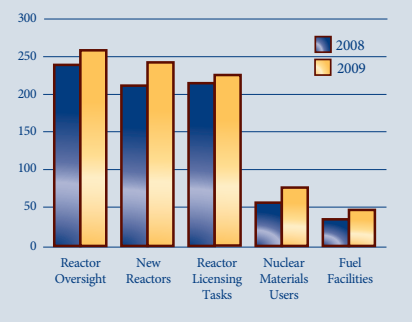
Figure 1
TOTAL SPENDING
(In Millions)



2005	2006	2007	2008	2009
$112	$56	$90	$123	$140

$ in millions

Figure 2
TOP 5 PROGRAMS BY BUDGET
(In Millions)



	Reactor Oversight	New Reactors	Reactor Licensing Tasks	Nuclear Materials Users	Fuel Facilities
2008	$239.3	$234.4	$213.5	$57.4	$35.0
2009	$255.4	$237.5	$225.5	$74.3	$48.5

$ in millions

Performance Snapshot

Accomplishments: The NRC continues to provide effective and efficient regulatory oversight of the nuclear industry as it embarks upon a period of significant growth with the review of 17 combined license applications to build and operate 26 new nuclear power plants. The NRC has also received and is currently reviewing the U.S. Department of Energy's application for the construction of the Nation's first geological repository for high-level nuclear waste at Yucca Mountain, NV.

Challenges: The primary challenges the agency faces are: the large number of license applications for new nuclear power plants, the safe disposal of high-level nuclear waste, and the need to ensure security at nuclear facilities.

Financial Snapshot

Clean Opinion on Financial Interests	Yes
Timely Financial Reporting	Yes
Material Weaknesses	0
Improper Payment Rate	*
Total Assets	$554
Total Liabilities	$137
Net Cost of Operations	$147

** NRC does not report on the Improper Payment Rate.*

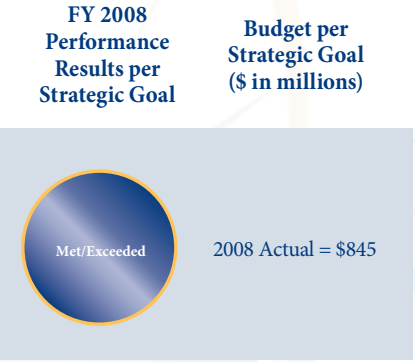
$ in millions

SUMMARY OF NUCLEAR REGULATORY COMMISSION RATINGS FOR FISCAL YEAR 2008

Strategic Goal: Safety

Ensure adequate protection of public health and safety and the environment.

Figure 3
STRATEGIC GOAL SAFETY
(In Millions)



Performance measure*	2006 Results	2007 Results	2008 Target	2008 Results	2008 Results	2009 Target
Number of significant accident sequence precursors of a nuclear reactor accident is 0.	0	0	0	0	Met	0
Number of new conditions evaluated as red by the Reactor Oversight Process is <3.	0	0	0	0	Met	0
Number of events with radiation exposures to the public and occupational workers that exceed Abnormal Occurrence Criterion I.A.	0	0	0	0	Met	0

Strategic Goal: Security

Ensure adequate protection in the secure use and management of radioactive materials.

Figure 4
STRATEGIC GOAL SECURITY
(In Millions)

Performance measure*	2006 Results	2007 Results	2008 Target	2008 Results	2008 Results	2009 Target
Number of unrecovered losses or thefts of risk-significant radioactive sources is zero.	0	0	0	0	Met	0
Number of substantiated cases of theft or diversion of licensed, risk-significant radioactive sources or formula quantities of special nuclear material; or attacks that result in radiological sabotage is zero.	0	0	0	0	Met	0
Number of substantiated losses of formula quantities of special nuclear material or substantiated inventory discrepancies of formula quantities of special nuclear material that are caused by theft or diversion or by substantial breakdown of the accountability system sabotage is zero.	0	0	0	0	0 (Met)	0

* These measures were selected from a number of performance measures aimed at the specific strategic goal.

INTRODUCTION

The Citizens' Report summarizes the performance and financial information contained in the NRC FY 2008 Performance and Accountability Report (PAR). The Citizens' Report contains information about the agency's mission, organization, and regulatory responsibilities. This report provides the public an opportunity to assess how effectively the NRC used its funds to achieve its safety and security goals.

When preparing this report, the NRC staff followed the requirements of Office of Management and Budget (OMB) Circular A-136 "Financial Reporting Requirements". This report contains information and agency activities for the period October 1, 2007 through September 30, 2008.

The NRC places a high importance on keeping the public informed of its activities. Enclosed in the Citizens' Report is a CD of the full versions of the NRC's FY 2008 PAR. Also, visit the NRC Web site at www.nrc.gov to access this report, as well as previous reports, and to learn more about who we are and what we do to serve the American public.

ABOUT THE NRC

The U.S. Congress established the NRC on January 19, 1975, as an independent Federal agency regulating the commercial and institutional uses of nuclear materials. The Atomic Energy Act, as amended, and the Energy Reorganization Act, as amended, define the NRC's purpose. These Acts provide the foundation for the NRC's mission to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of public health and safety, to promote the common defense and security, and to protect the environment.

To fulfill its responsibility to protect public health and safety, the NRC performs the following three principal regulatory functions:

(1) establishes standards and regulations
(2) issues licenses for nuclear facilities and users of nuclear materials
(3) inspects facilities and users of nuclear materials to ensure compliance with regulatory requirements

The agency regulates civilian nuclear power plants and other nuclear facilities, as well as other uses of nuclear materials. These other uses include nuclear medicine programs at medical facilities; academic activities at educational institutions; research work; and industrial applications, such as gauges and testing equipment, and the transport, storage, and disposal of nuclear materials and wastes.

Organization

The NRC is headed by a Commission composed of five members, with one member designated by the President to serve as Chairman. With the advice and consent of the Senate, the President appoints each member to serve a 5-year term. The Chairman is the principal executive officer and official spokesman for the Commission. The Executive Director for Operations carries out program policies and decisions made by the Commission.

The NRC's headquarters is located in Rockville, MD. Four regional offices are located in King of Prussia, PA; Atlanta, GA; Lisle, IL; and Arlington, TX. The NRC's technical training center is located in Chattanooga, TN. The NRC also employs at least two resident inspectors at each of the Nation's nuclear power reactor sites. The NRC's Operations Center, located at the headquarters building in Rockville, MD, is the focal point for the agency's communications with its licensees, State agencies, and other Federal agencies concerning operating events in the commercial nuclear sector. The NRC operations officers staff the Operations Center 24 hours a day.

The NRC's budget for FY 2008 was $926.1 million (See Figure 5) with 3,707 full-time equivalent staff (See Figure 6). The NRC recovers approximately 90 percent of its appropriations from fees paid by NRC licensees.

The Nuclear Industry

The NRC regulates the commercial use of radioactive materials. The nuclear fuel cycle begins with the mining and production of nuclear fuel, continues with the use of nuclear fuel to power the Nation's 104 nuclear power plants, and ends with the safe transportation and storage of spent nuclear fuel and other nuclear waste. The NRC's regulatory programs ensure that radioactive materials are used safely and securely at every stage in the nuclear fuel cycle. Under the NRC's Agreement State program, 35 States have assumed primary

Figure 5
NRC BUDGETARY AUTHORITY, FY 2003–2008
(Dollars in Millions)

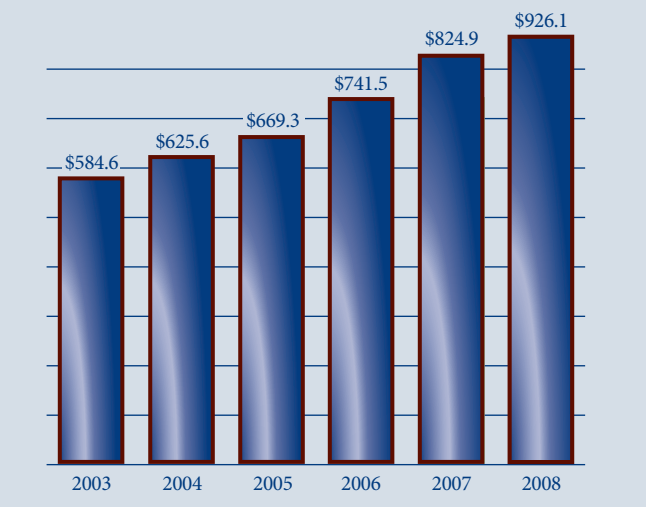
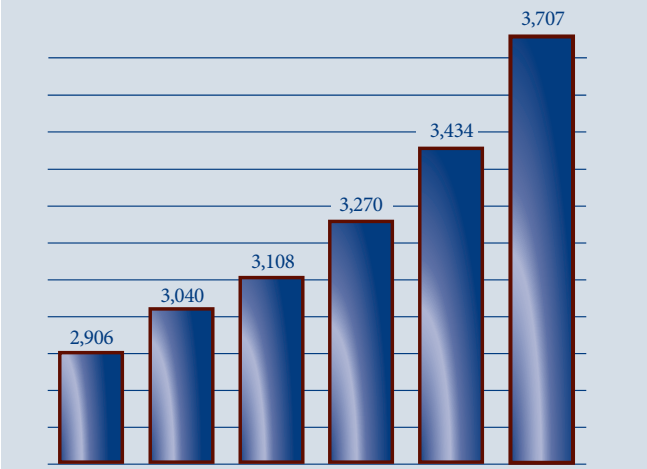


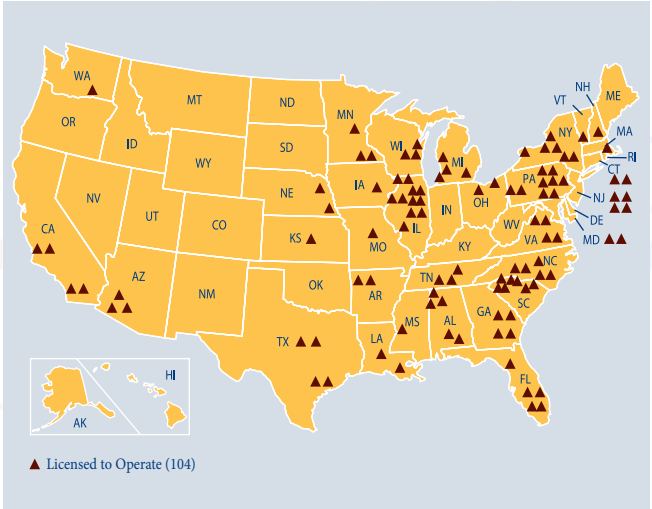
Figure 6
NRC PERSONNEL CEILING, FY 2003–2008
(Staff)



regulatory responsibility over the industrial, medical, and other smaller users of nuclear materials in their States. The NRC works closely with these States to ensure that they maintain public safety. To address safety and security issues, the NRC has developed regulatory practices, knowledge, and expertise specific to each activity in the nuclear materials cycle.

Approximately 20 percent of the Nation's electricity is generated by the 104 NRC-licensed commercial nuclear reactors operating in 31 States (See Figure 7). Since 1996,

Figure 7
U.S. COMMERCIAL NUCLEAR POWER REACTORS



nuclear electric generation has increased by approximately 20 percent. The NRC oversees 3,738 licenses for medical, academic, industrial, and general uses of nuclear materials (See Figure 8). The agency conducts approximately 1,287 health and safety inspections of its nuclear materials licensees annually. In addition, the 35 Agreement States oversee 18,700 licenses. The NRC, Agreement States, and their licensees share a common responsibility to protect public health and safety.

Figure 8
U.S. MATERIALS LICENSEES
NRC Agreement States

Fuel Facilities

The production of nuclear fuel begins at uranium mines where natural uranium ore is extracted from the ground. This ore is processed at a mill, where it is ground up, and then at a refinery, where the uranium is separated from the rock and concentrated into a form called "yellow cake." At a special facility, the yellow cake is converted into uranium hexafluoride gas and loaded into cylinders. The cylinders are sent to a gaseous diffusion plant, where uranium is enriched for use as reactor fuel. The enriched uranium is then converted into oxide powder, fabricated into fuel pellets (each about the size of a fingertip). These pellets are loaded into metal tubes that are bundled into reactor fuel assemblies at a fuel fabrication facility. Assemblies are then transported to nuclear power plants, nonpower research reactor facilities, and naval propulsion reactors for use as fuel. The NRC licenses and regulates eight major fuel fabrication and production facilities and three enrichment facilities in the United States. Because they handle potentially hazardous material, these facilities take special precautions to prevent theft, diversion by terrorists, and radioactive exposures to workers and the public.

Reactors

Nuclear electric generating stations, like those fired by coal or oil, convert heat into electricity by heating water to produce steam that spins huge turbines that turn electrical generators. Nuclear energy cannot be seen. There is no burning of fuel in the usual sense. Rather, energy is given off by the nuclear fuel as certain types of atoms split in a process called nuclear fission. This energy is in the form of fast-moving particles and invisible radiation. As the particles and radiation move through the fuel and surrounding water, the energy is converted into heat. The radiation energy can be hazardous, and facilities take special precautions to protect people and the environment from these hazards.

Because the fission reaction produces potentially hazardous radioactive materials, nuclear power plants are equipped with safety systems to protect workers, the public, and the environment. Radioactive materials require careful use because they produce ionizing radiation, a form of energy that can damage human cells. Depending on the amount and duration of the exposure, radiation can potentially cause cancer. In a nuclear reactor, most hazardous radioactive substances, called fission byproducts, are trapped in the fuel pellets or in the sealed metal tubes holding the fuel. However, small amounts of these radioactive fission byproducts, principally gases, can become mixed with the water passing through the reactor. Other impurities in the water also become radioactive as they pass through the reactor. The facility processes and filters the water to remove these radioactive impurities and then returns the water to the reactor cooling system.

Materials Users

The medical, academic, and industrial fields all use nuclear materials. For example, about one-third of all patients admitted to U.S. hospitals are diagnosed or treated using radioisotopes. Most major hospitals have specific departments dedicated to nuclear medicine. In all, about 112 million nuclear medicine or radiation therapy procedures are performed annually, with the vast majority used in diagnoses. Radioactive materials used as a diagnostic tool can identify the status of a disease and minimize the need for surgery. Radioisotopes give doctors the ability to look inside the body and observe soft tissues and organs, in a manner similar to the way X-rays provide images of bones. Radioisotopes carried in the blood also allow doctors to detect clogged arteries or check the functioning of the circulatory system.

The same property that makes radiation hazardous can also make it useful in treating certain diseases like cancer. When living tissue is exposed to high levels of radiation, cells can be destroyed or damaged. Doctors can selectively expose cancerous cells (cells that are dividing uncontrollably) to radiation to either destroy these cells or damage them so they can no longer reproduce.

Many of today's industrial processes also use nuclear materials. High-tech methods that ensure the quality of manufactured products often rely on radiation generated by radioisotopes. To determine whether a well drilled deep into the ground has the potential for producing oil, geologists use nuclear well-logging, a technique that employs radiation from a radioisotope inside the well to detect the presence of different materials. Radioisotopes are also used to sterilize instruments, find flaws in critical steel parts and welds that

go into automobiles and modern buildings, authenticate valuable works of art, and solve crimes by spotting trace elements of poison. Radioisotopes can also eliminate dust from film and compact discs and reduce static electricity (which may create a fire hazard) from can labels. In manufacturing, radiation can change the characteristics of materials, often giving them features that are highly desirable. For example, wood and plastic composites treated with gamma radiation resist abrasion and require low maintenance. As a result, they are used for some flooring in high-traffic areas of department stores, airports, hotels, and churches.

Waste Disposal

During normal operations, a nuclear power plant generates the following two types of radioactive waste: high-level waste, which consists of used fuel (usually called spent fuel), and low-level waste, which includes contaminated equipment, filters, maintenance materials, and resins used in purifying water for the reactor cooling system. Other users of radioactive materials also generate low-level waste.

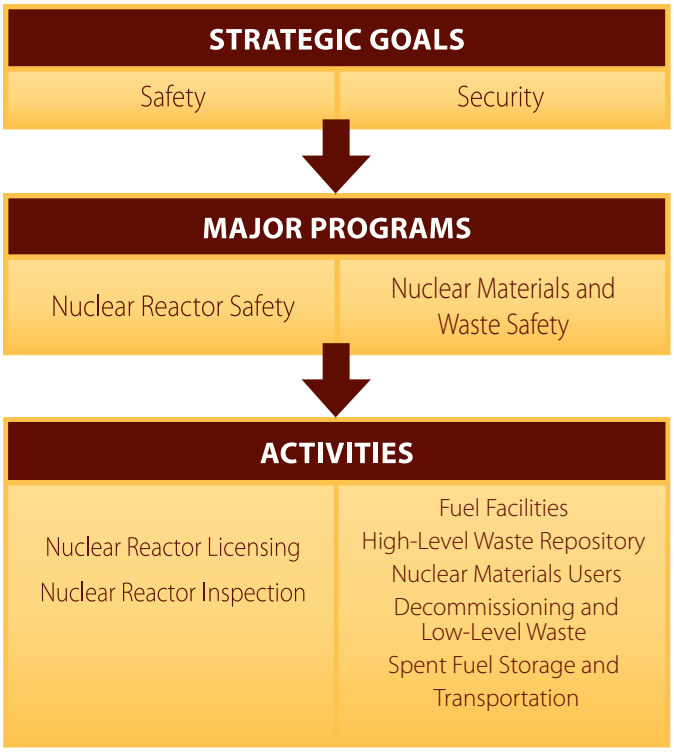
Nuclear power plants handle each type of radioactive waste differently. They must use special procedures in the handling of the spent fuel because it contains the highly radioactive fission byproducts created while the reactor was operating. Typically, the spent fuel from nuclear power plants is stored either in water-filled pools at each reactor site or at a storage facility in Illinois. The water in the spent fuel storage pool provides cooling and adequately shields and protects workers from the radiation. Several nuclear power plants have also begun using dry casks to store spent fuel. These heavy metal or concrete casks rest on concrete pads adjacent to the reactor facility. The thick layers of concrete and steel in these casks shield workers and the public from radiation.

Currently most spent fuel in the United States remains stored at individual plants. Permanent disposal of spent fuel from nuclear power plants requires a disposal facility that can provide reasonable assurance that the waste will remain isolated for thousands of years. The U.S. Department of Energy submitted an application for a permanent disposal facility at Yucca Mountain, NV, for spent fuel; the NRC has docketed and is reviewing this application.

Licensees often store low-level waste onsite until its radioactivity has decayed and the waste can be disposed of as ordinary trash, or until amounts are large enough for shipment to a low-level waste disposal site in containers approved by the U.S. Department of Transportation. The NRC has developed a waste classification system for low-level radioactive waste, based on its potential hazards, and has specified disposal and waste form requirements for each of the following general classes of waste: Class A, Class B, and Class C waste. Generally, Class A waste contains lower concentrations of radioactive material than Class B and Class C wastes. There are two low-level disposal facilities that accept a broad range of low-level wastes. They are located in Barnwell, SC, and Richland, WA.

PROGRAM PERFORMANCE OVERVIEW

The NRC's FY 2008–2013 Strategic Plan determines the agency's long-term goals and strategic direction. The agency has two strategic goals: safety and security. To achieve its goals, the agency is organized into two major programs: the Nuclear Reactor Safety Program and the Nuclear Materials and Waste Safety Program.



Nuclear Reactor Safety Program

The Nuclear Reactor Safety Program encompasses all the NRC's efforts to ensure that civilian nuclear power reactor facilities and research and test reactors are licensed and operated in a manner that adequately protects the public health and safety, preserves the environment, and protects against radiological sabotage and theft or diversion of special nuclear materials.

Nuclear Materials and Waste Safety Program

The Nuclear Materials and Waste Safety Program focuses on the safe and secure use of the remaining radioactive materials. The Nuclear Materials and Waste Safety Program regulates fuel facilities, medical and industrial nuclear materials users, the disposal of both high-level and low-level waste, the decommissioning of power plants, and the storage and transportation of spent nuclear fuel.

PROGRAM PERFORMANCE RESULTS

STRATEGIC GOAL 1: SAFETY

Ensure Adequate Protection of Public Health and Safety and the Environment

Safety is the primary goal of the NRC. The agency achieves this goal by ensuring that the performance of licensees is at or above acceptable safety levels. The NRC safety programs work in conjunction with its licensees in a partnership. The NRC licensees are responsible for designing, constructing, and operating nuclear facilities safely. The NRC is responsible for regulatory oversight of the licensees. NRC safety goal activities are designed to create the following strategic outcomes.

Strategic Outcomes:

- prevent the occurrence of any nuclear reactor accidents
- prevent the occurrence of any inadvertent criticality events
- prevent the occurrence of any acute radiation exposures resulting in fatalities
- prevent the occurrence of any releases of radioactive materials that result in significant radiation exposures
- prevent the occurrence of any releases of radioactive materials that cause significant adverse environmental impacts

FY 2008 Results

In FY 2008, the NRC achieved all five of the strategic outcomes for its safety goal. The NRC also uses six performance measures to determine whether it has met its safety goal. The agency met all six performance measure targets in FY 2008.

Three of the performance measures focus on performance at individual nuclear power plants. Inspection results show that all of the nuclear power plants are operating safely. The fourth measure tracks the trends of several key indicators of nuclear power plant safety. This measure is the broadest measure of the safety of nuclear power plants, incorporating the performance results from all plants to determine industry average results. The results show that there were no statistically significant adverse trends for any of the indicators in FY 2008.

The last two safety performance measures track harmful radiation exposures to the public and occupational workers and radiation releases that harm the environment.

STRATEGIC GOAL 2: SECURITY

Ensure Adequate Protection in the Secure Use and Management of Radioactive Materials

The NRC must remain vigilant in ensuring the security of nuclear facilities and materials. The agency achieves its common defense and security goal using licensing and oversight programs similar to those employed in achieving its safety goal.

Strategic Outcome:

- Prevent any instances where licensed radioactive materials are used domestically in a manner hostile to the security of the United States.

FY 2008 Results

In FY 2008, the NRC achieved the strategic outcome for its security goal. The NRC also uses five security goal performance measures to determine whether the agency has met its security goal. The agency met all five performance measure targets in FY 2008. The first performance measure tracks unrecovered losses or thefts of risk-significant radioactive sources. The measure ensures that those radioactive sources that the agency has determined to be risk-significant to the public health and safety are accounted for at all times. The ability to account for these sources is critical to secure the nation from "dirty bomb" attacks or other means of radiation dispersal.

The second, third, and fourth performance measures evaluate the number of significant security events and incidents that occur at NRC-licensed facilities. These measures determine whether nuclear facilities maintain adequate protective forces to prevent theft or diversion of nuclear material or sabotage; whether systems in place at licensee plants accurately account for the type and amount of materials processed, used, or stored; and whether the facilities account for special nuclear material at all times with no losses of this material. There were no events that met the conditions for this measure in FY 2008.

The last security measure tracks significant unauthorized disclosures of classified or safeguards information that may cause damage to national security or public safety. This measure focuses on whether classified information or safeguards information is stored and used in such a way as to prevent its disclosure to the public, terrorist organizations, other nations, or personnel without a need to know. Unauthorized disclosures can harm national security or compromise public health and safety. The measure also focuses on whether controls are in place to maintain and secure the various devices and systems (electronic or paper-based) that the agency and its licensees employ to store, transmit, and use this information. There were no documented disclosures of this type of information during FY 2008.

Organizational Excellence Objectives

This FY 2008 Performance and Accountability Report reflects the agency's new FY 2008–2013 Strategic Plan. Under this new strategic plan, the former goals of openness, effectiveness, and operational excellence are now considered to be organizational excellence objectives, because they support the achievement of the agency's two strategic goals of safety and security. The performance measures related to these three former strategic goals remain in effect in FY 2008, as required by the Government Performance Results Act (GPRA). These measures will not be reported after this year.

Openness

The agency missed its openness measure target requiring that 88 percent of selected openness output measures achieve their goals. The agency achieved a score on this measure of 80 percent, missing 2 out of 10 targets.

The agency missed the output measure target that called for 90 percent of nonsensitive, unclassified regulatory documents generated by the NRC and sent to the agency's Document Processing Center be released to the public by the 6th working day after the date of the document. However, the agency has improved since FY 2006, increasing from 63 percent to 75 percent in FY 2007 and to 82 percent in FY 2008. The agency continues to struggle to meet this measure because of the time it takes to conduct its internal document review processes. The agency will continue to look for additional efficiencies to reduce the amount of time necessary to release documents.

The agency also missed the output measure target requiring 90 percent of nonsensitive, unclassified regulatory documents to be released by the 6th working day after the document is added to the Agencywide Documents Access and Management System. The results declined from 87 percent in FY 2007 to 66 percent in FY 2008. As with the previous measure, the NRC needs to find efficiencies to reduce the time to process documents. The agency is also engaging in activities to increase staff training as a means to close the gap on this measure.

Effectiveness

The agency successfully met the targets for its two performance measures for effectiveness. The effectiveness measures focus on achieving efficiencies in agency processes.

Operational Excellence

The agency achieved one of two operational excellence performance measures. The first measure, to deliver efficiency improvements for selected support processes, was not achieved. The agency set a target to reduce the agency staff hours used to develop its performance budget by 5 percent. However, the NRC experienced a large growth in staff caused by a large increase in applications from licensees to develop and construct new reactors. As a result, additional budget staff was hired to manage the program. The agency is developing a new budget process that is expected to reduce budget staff hours in FY 2009. In addition, 80 percent of the time, the agency was unable to issue an offer letter to new employees within 45 work days of the closing date of the employment announcement. Offer letters were issued within 45 days only 56 percent of the time in FY 2008. As a result, the NRC undertook a Lean Six Sigma study, a corporate improvement methodology, during the second quarter of FY 2007, to evaluate the hiring process from the closing date of the announcement to the offer date and develop recommendations to help streamline that process. The agency is currently leading a separate effort to implement the recommendations made by the Lean Six Sigma study workgroup and to develop a plan to assess the NRC's progress towards reducing the hiring time frame to meet the 45-day target.

The second operational excellence performance measure assessed the agency's performance in delivering outcomes in four management programs for infrastructure, financial, information technology, and human capital management. These programs were able to meet their intended outcomes.

Program Assessment Rating Tool Results

There were no Program Assessment Rating Tool (PART) reviews conducted by the agency during FYs 2006 and 2008. The following table shows the results of the agency's PART scores from FY 2003 to FY 2007.

Program	Year	Score	Rating
Reactor Inspection and Performance Assessment	2003	89	Effective
Fuel Facilities Licensing and Inspection	2003	89	Effective
Nuclear Materials Users Licensing and Inspection	2004	93	Effective
Reactor Licensing	2005	74	Moderately Effective
Spent Fuel Storage and Transportation Licensing and Inspection	2005	89	Effective
Decommissioning and Low-Level Waste	2007	91	Effective
High-Level Waste Repository	2007	87	Effective

FUTURE CHALLENGES

The NRC ensures that the health and safety of the American public and the environment are adequately protected from any harmful effects of using nuclear materials. The industry has experienced a substantial improvement in safety at nuclear power plants over the past 20 years, as both the nuclear industry and the NRC have gained substantial experience in the operation and maintenance of nuclear power facilities. Improvements

in safety have occurred at a time when nuclear power generation has increased significantly from 675,000 gigawatt hours in calendar year (CY) 1996 to approximately 806,000 gigawatt hours in CY 2007. However, despite the excellent safety and security record of the industry, the agency cannot rest on its achievements. The primary challenges the agency faces are the large number of expected applications for licenses for new nuclear plants, the safe disposal of high-level nuclear waste, and the need to ensure security at nuclear facilities.

New Nuclear Power Plants

With increased concerns about the continued availability and cost of oil, as well as concerns over the environmental damage caused by coal-burning electrical plants, the amount of electricity supplied by nuclear power is likely to increase substantially in the future. The NRC last issued a nuclear power plant construction permit in 1979. To date, the agency has received a total of 17 combined license (COL) applications for sites across the country. The agency's primary challenge is to license new reactors to ensure that they will operate safely as they provide electricity required by the Nation for economic growth. However, before licensing any new nuclear reactor, the agency requires a detailed analysis of new reactor designs. This analysis includes a study of the reactor's vulnerability to accidents and security. It also includes the development of inspection procedures, tests, analyses, and acceptable criteria for construction. Finally, the NRC is evaluating commercial gas centrifuge facilities that use new methods of enriching nuclear fuel for reactors.

Safe Disposal of High-Level Waste

Safely disposing of the waste from nuclear power plants is vital to protecting public health and the environment. Lack of storage options would become a major roadblock for the continued growth of the industry. Earlier in FY 2008, the U.S. Department of Energy filed a license application to establish the Nation's first repository for high-level radioactive waste at Yucca Mountain, NV. The NRC staff accepted and docketed the application. The agency has begun a review to evaluate a wide range of technical and scientific issues. In the meantime, the agency must ensure safe and secure interim storage capacity until a repository is licensed and ready to receive high-level nuclear waste. Most nuclear waste is now safely and securely stored at reactor sites. In addition to the storage of nuclear waste, the safe transportation of spent nuclear fuel is a significant issue for the public and the agency. More than 1,300 spent fuel shipments regulated by the NRC have been safely transported in the United States in the past 25 years. The NRC anticipates that the bulk of nuclear waste now stored at the reactor sites will eventually be moved to a permanent storage site. Therefore, the agency must be able to assure the public that all movements of nuclear waste, including those to a permanent storage site, will be safe and secure.

Security at Nuclear Facilities

In addition to safety, the security of nuclear materials is of paramount importance. Nuclear facilities are among the most secure facilities in the Nation. The NRC, in concert with other Federal agencies, constantly monitors intelligence to determine the level of threat faced by nuclear facilities. The agency continues to improve the regulatory requirements to better ensure the security of nuclear materials and facilities. The threat faced by the Nation from those seeking to steal classified information has become more urgent in recent years. Nuclear facilities have implemented increased security measures, including "force-on-force" training exercises, to help ensure protection of this vital national infrastructure.

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the summary of financial statements for the U.S. Nuclear Regulatory Commission (NRC) "Citizens' Report: The FY 2008 Summary of Performance and Financial Results." For the fifth consecutive year, an independent auditor has rendered an unqualified opinion on the NRC financial statements. This past year, the NRC successfully implemented the corrective actions necessary to improve its information system security controls and eliminated the last remaining internal control material weakness identified during prior audits.

Furthermore, the NRC continues to meet the requirements of Office of Management and Budget (OMB) Circular A-123, Appendix A, "Internal Controls Over Financial Reporting." During FY 2008, NRC assessed nine key processes and tested 56 controls in five of these key processes to meet the OMB circular requirements. For the third consecutive year, no material weaknesses were identified for NRC financial reporting.

During FY 2008, the agency continued implementing the President's Management Agenda and further improving its financial systems and processes. Some specific NRC accomplishments include the following:

- Outsourcing the NRC payment function to a shared service provider, reducing transaction costs, and improving payment accuracy and timeliness.
- Completing the Federal Information Security Management Act (FISMA) certification and accreditation for the NRC time and labor system.
- Establishing an educational grant program payment process with the U.S. Department of the Treasury's Automated Standard Application for Payment System that allows award recipients more timely access to grant funds.
- Implementing a streamlined process with a new information technology system for budget formulation that resulted in improved transparency and coordination during the FY 2010 budget development process.

In the future, the NRC plans to complete additional initiatives to achieve its financial management goals of improving controls while providing more timely and accurate information to stakeholders. The most significant initiative in this area involves the replacement of several legacy systems with an integrated Web-based financial management system hosted by a Government shared service provider. In FY 2008, NRC established an interagency agreement with a shared service provider and is currently defining system requirements. NRC is working towards implementing this new core financial system by FY 2011. In conjunction with this effort, the NRC is also streamlining its business processes and modernizing its time and labor system to create more robust and user-friendly systems. These process changes and replacement systems will improve the NRC's efficiency and provide agency managers with substantially greater access to financial information for improved decisionmaking.

The NRC is proud of its financial management accomplishments in FY 2008 and looks forward to continued improvement in FY 2009 and beyond. The agency takes its responsibility for effective stewardship of taxpayer money very seriously. The NRC is committed to effective and efficient management of Government resources to achieve its strategic goals for ensuring the safety and security of the Nation's civilian use of nuclear materials.

J.E. Dyer
Chief Financial Officer
January 15, 2009

FINANCIAL PERFORMANCE OVERVIEW

As of September 30, 2008, the financial condition of the NRC was sound with respect to having sufficient funds to meet program needs and adequate control of these funds in place to ensure obligations did not exceed budget authority. The NRC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements."

Sources of Funds

The NRC has two appropriations: one for Salaries and Expenses and one for the Office of the Inspector General. Funds for both appropriations are available until expended. The NRC's total new FY 2008 budget authority was $926.1 million. Of this amount, $917.3 million was for the Salaries and Expenses appropriation and $8.7 million was for the Office of the Inspector General appropriation. This represents an increase in new budget authority of $101.2 million over FY 2007 ($100.8 million for the Salaries and Expenses appropriation and $0.4 million for the Office of the Inspector General appropriation). In addition, $87.6 million from prior-year appropriations, $6.3 million from prior-year reimbursable work, and $8.8 million for new reimbursable work to be performed for others was available to obligate in FY 2008. The sum of all funds available to obligate for FY 2008 was $1,028.8 million, which is a $117.9 million increase over the FY 2007 amount of $910.9 million.

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90), as amended, requires the NRC to collect fees to offset approximately 90 percent of its new budget authority, less the amount appropriated to the NRC from the Nuclear Waste Fund and amounts appropriated for waste incidental to reprocessing and generic homeland security for FY 2008. The NRC recovered $763.6 million in fees in FY 2008 (See Figure 9). This is 98 percent of the fee recovery requirement.

Uses of Funds by Function

The NRC incurred obligations of $949.8 million in FY 2008, which was an increase of $111.0 million over FY 2007. Approximately 55 percent of obligations were used for salaries and benefits. The remaining 45 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work (See Figure 10). The unobligated budget authority available at the end of FY 2008 of $79.0 million, increased compared to the FY 2007 amount of $72.2 million. Of this $79.0 million, $7.3 million is for reimbursable work and $71.7 million is available to fund critical NRC needs in FY 2009.

Figure 9
SOURCES OF FUNDS
(In Millions)

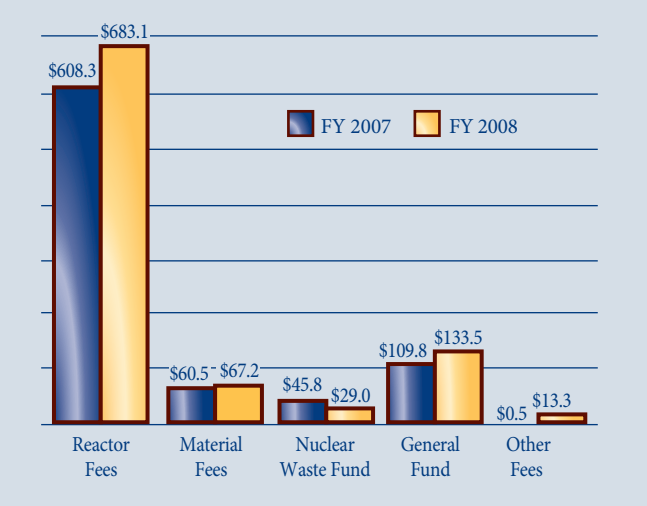
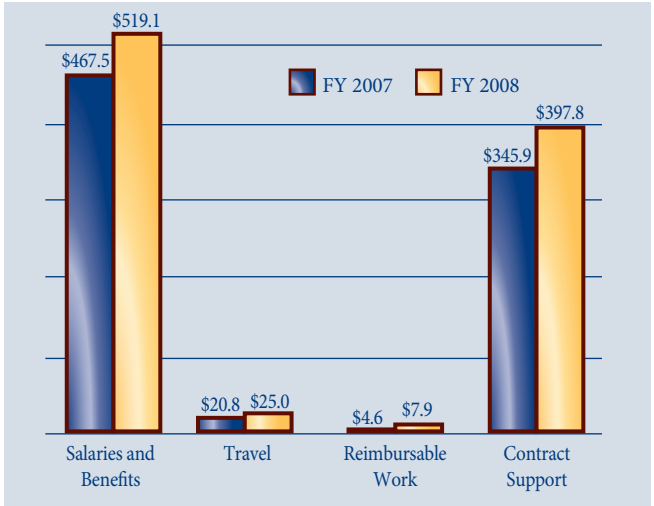


Figure 10
USES OF FUNDS BY FUNCTION
(In Millions)



Audit Results

The NRC received an unqualified audit opinion on its FY 2008 financial statements. In FY 2007, the auditors identified a continuing material weakness in the agency's information systemwide security controls related to an Office of the Inspector General (OIG) independent evaluation of the NRC's implementation of the Federal Information Security Management Act (FISMA). The FISMA report identified two significant deficiencies related to a lack of contingency plan testing for information security systems, and a lack of certification and accreditation for most of the agency's major information systems. These deficiencies were also identified as a material weakness in the agency's FY 2007 Federal Managers' Financial Integrity Act (Integrity Act) assurance statement. In FY 2008, during the FISMA evaluation, the OIG found that improvements in contingency plan testing and certification and accreditation had been sufficient to remove the significant deficiency. As a result, the NRC reported no material weaknesses for internal control in the Integrity Act assurance statement.

In FY 2004, FY 2005, and FY 2006, the auditors identified a material weakness concerning the Fee Billing System and the quality assurance process over fee billing. In FY 2007, the auditors downgraded this finding to a significant deficiency due to successful implementation of quality assurance procedures over fee billing. In FY 2008, the auditors closed this significant deficiency due to continued diligence in performing quality assurance efforts.

In FY 2008, the auditors identified a significant deficiency related to the method by which the NRC estimates the accounts payable balance that represents costs for billed and unbilled goods and services received (prior to year end) that are unpaid. Prior to FY 2008, the NRC used an algorithm that recognized accounts payable as a specific percentage of the NRC's total expenses to date. Once this percentage was calculated, it was applied to an annualized expense figure. In FY 2008, the NRC implemented a revised methodology to calculate the accounts payable estimate. The new methodology involves analyzing the actual activity for the largest obligations to include in the estimate. For the remaining smaller obligations, the actual activity of a percentage of the obligations was analyzed and an algorithm was developed to estimate the total amount to include in the accounts payable balance. In FY 2009, the NRC will continue to refine this new estimation methodology to ensure accuracy.

In FY 2007, the Fee Billing System was also identified as a substantial noncompliance with the Federal Financial Management Improvement Act (Improvement Act). In FY 2008, the Fee Billing System continues to be substantially noncompliant with the Improvement Act due to a lack of current certification and accreditation. Although there may be a potential risk with security controls, there are a number of existing mitigating controls that provide the NRC management with reasonable assurance that the financial data resulting from its financial management systems are accurate. The NRC plans to complete certification and accreditation activities for the Fee Billing System in FY 2009.

Financial Statement Highlights

The NRC's financial statements summarize the financial activity and financial position of the agency.

Analysis of the Balance Sheet

The NRC's assets were $554.5 million as of September 30, 2008. This is an increase of $69.1 million from the end of FY 2007. The assets reported in the NRC's Balance Sheet are summarized in the Condensed Balance Sheet on page 17.

The Fund Balance with the U.S. Department of the Treasury (Treasury) represents the NRC's largest asset of $393.5 million as of September 30, 2008, an increase of $37.1 million from the FY 2007 year-end balance. This balance accounts for 71 percent of Total Assets and represents appropriated funds, collected license fees, and other funds maintained at the Treasury to pay current liabilities (See Figure 11). The increase in the Fund Balance with Treasury is primarily due to $926.1 million in new budget authority and $8.3 million in reimbursable collections, which are offset by $884.0 million in expenditures and a $13.3 million decrease in fee overcollections.

Figure 11
ASSETS SUMMARY
(In Millions)

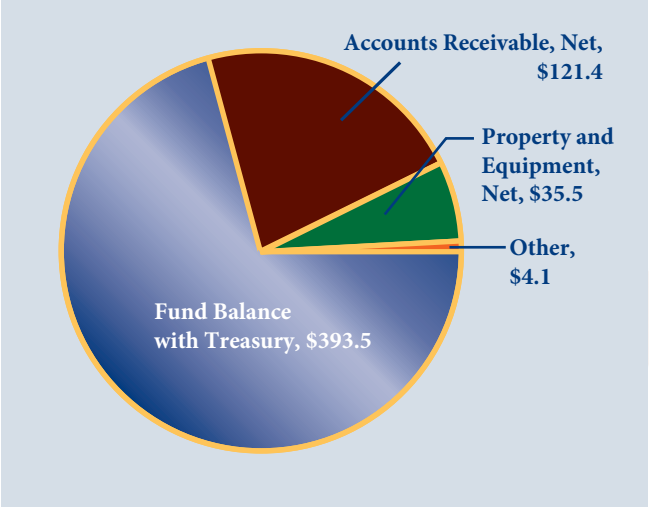
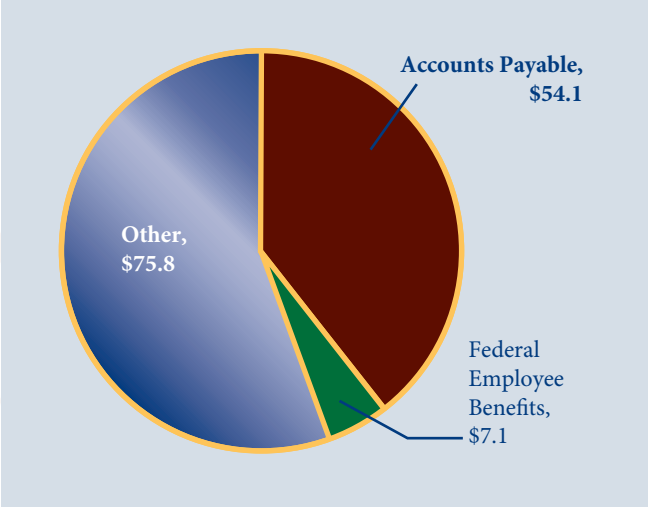


Figure 12
LIABILITIES SUMMARY
(In Millions)



Accounts Receivable, Net, as of September 30, 2008, was $121.4 million, which includes an offsetting allowance for doubtful accounts of $1.7 million. This is a 29 percent increase from the FY 2007 year-end Accounts Receivable, Net, balance of $93.9 million. The increase is primarily due to fees for new reactor licensing and materials and facilities inspections. The value of Property and Equipment, Net, was $35.5 million, representing 6 percent of Total Assets. The majority of this balance represents information technology software and leasehold improvements.

The NRC's liabilities were $137.0 million as of September 30, 2008 (See Figure 12). The decrease in Total Liabilities of $67.2 million from the FY 2007 year-end balance of $204.2 million is primarily due to a decrease of $93.9 million in Other Liabilities primarily as a result of a change in accounting for fee revenue and the corresponding transfer of fee revenue collections to Treasury. Beginning in FY 2008, this liability is no longer being recorded. The decrease is offset by an increase of $26.4 million in Accounts Payable for new reactors and existing reactor and materials licensing tasks. Of the agency's liabilities, $52.5 million were not covered by budgetary resources, which is a 12 percent increase over the balance of $46.8 million as of September 30, 2007. The liabilities not covered by budgetary resources include unfunded accrued annual leave and future workers' compensation.

The difference between Total Assets and Total Liabilities, Net Position, was $417.5 million as of September 30, 2008. This is an increase of $136.3 million from the FY 2007 year-end balance. The Net Position is comprised of two components: Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations is the amount of authorized funds granted by Congress that have not been expended. The increase in Unexpended Appropriations of $35.3 million for FY 2008 is primarily due to funding for the expected added volume of new reactor licensing activities. Cumulative Results of Operations represents the cumulative excess of financing sources over expenses. The increase is due primarily to a change in accounting for fee revenue and the corresponding transfer of fee revenue collections to Treasury.

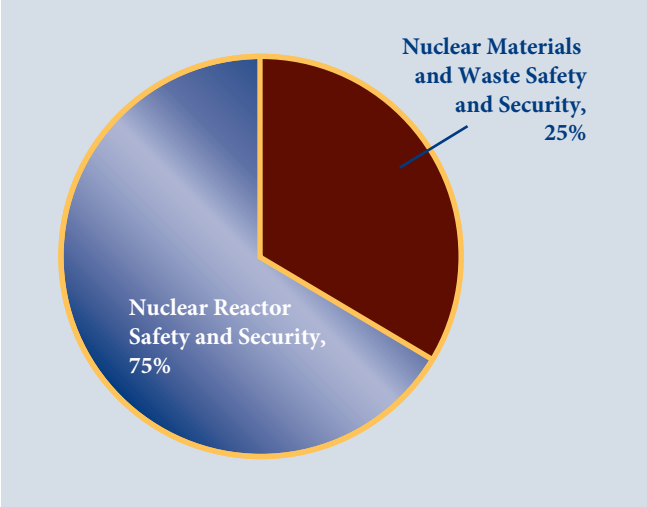
Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of the NRC's two programs as identified in the NRC Annual Performance Plan. The purpose of this statement is to link program performance to the cost of programs. The NRC's Net

Cost of Operations for the year ended September 30, 2008, was $146.5 million, which is an increase of $53.1 million over the FY 2007 net cost of $93.4 million. Net costs by program are shown in the Statement of Net Cost on page 17.

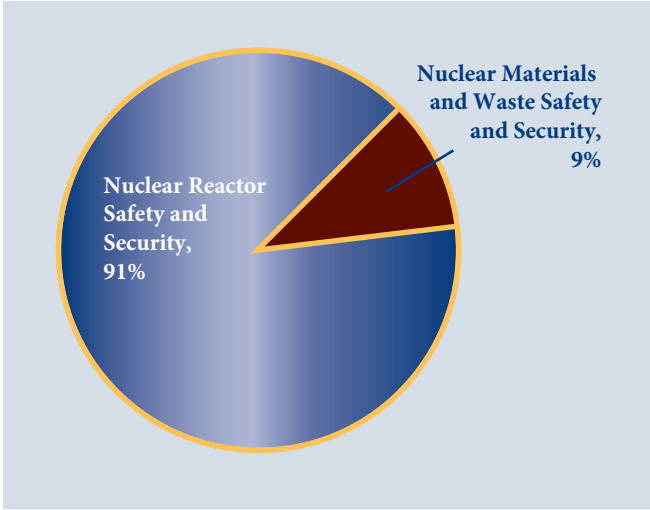
Net Costs are gross costs offset by earned revenue. Gross costs increased in Nuclear Reactor Safety and Security in the areas of new reactor and existing licensing tasks and in Nuclear Materials & Waste Safety and Security for contract support for high-level waste, nuclear materials licenses, fuel facilities, and spent fuel storage and transport (See Figure 13). Earned revenue increased primarily because of the increase in appropriations for NRC activities, of which the NRC is required to collect 90 percent through fee billing (See Figure 14).

Figure 13
GROSS COSTS



Total earned revenue for the year ended September 30, 2008, was $797.6 million, which is an increase of $104.3 million from the earned revenue of $693.3 million for the year ended September 30, 2007. Earned revenue is derived from fees for reactor and materials licensing and inspections in accordance with Title 10 of the *Code of Federal Regulations* (10 CFR) Part 170, "Fees for Facilities, Materials, Import and Export Licenses, and Other Regulatory Services

Figure 14
EARNED REVENUE



under the Atomic Energy Act of 1954, as Amended," and 10 CFR Part 171, "Annual Fees for Reactor Licenses and Fuel Cycle Licenses and Materials Licenses, Including Holders of Certificates of Compliance, Registrations, and Quality Assurance Program Approvals and Government Agencies Licensed by the NRC."

Analysis of the Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components—Cumulative Results of Operations and Unexpended Appropriations. The increase in Net Position of $136.3 million from FY 2007 to FY 2008 is due primarily to an increase in the net change in Cumulative Results of Operations of $101.0 million primarily due to the change in accounting for fee revenue and the corresponding transfer of fee revenue collections to Treasury. The increase in Unexpended Appropriations of $35.3 million is primarily caused by the increase in the appropriation for FY 2008 for the expected added volume of new reactor licensing activities. The Statement of Changes in Net Position is presented on page 18.

CONDENSED FINANCIAL STATEMENTS

Condensed Balance Sheet* (In Thousands)

As of September 30,	2008	2007
Assets		
Fund balances with Treasury	**$ 393,478**	$ 356,399
Accounts receivable, net	**121,376**	93,894
Property and equipment, net	**35,475**	31,832
Other	**4,149**	3,283
Total Assets	**$ 554,478**	$ 485,408
Liabilities		
Accounts payable	**$ 54,123**	$ 27,710
Federal employee benefits	**7,059**	6,833
Other	**75,792**	169,674
Total Liabilities	**136,974**	204,217
Net Position		
Unexpended appropriations	**289,269**	254,027
Cumulative results of operations	**128,235**	27,164
Total Net Position	**417,504**	281,191
Total Liabilities and Net Position	**$ 554,478**	$ 485,408

Statement of Net Cost (In Thousands)

For the years ended September 30,	2008	2007
Nuclear Reactor Safety and Security		
Gross costs	**$ 705,832**	$ 582,212
Less: Earned revenue	**(725,840)**	(612,769)
Total Net Cost of Nuclear Reactor Safety and Security	**(20,008)**	(30,557)
Nuclear Materials and Waste Safety and Security		
Gross costs	**238,219**	204,495
Less: Earned revenue	**(71,740)**	(80,490)
Total Net Cost of Nuclear Materials and Waste Safety and Security	**166,479**	124,005
Net Cost of Operations	**$ 146,471**	$ 93,448

*For a complete set of financial statements and notes, see Chapter 3, "Financial Statements and Auditors' Report," in the *FY 2008 Performance and Accountability Report*. This report can be accessed at http://www.nrc.gov.

U.S.NRC
United States Nuclear Regulatory Commission
Protecting People and the Environment

Statement of Changes in Net Position (In Thousands)

For the years ended September 30,	2008	2007
Cumulative Results of Operations		
Beginning Balance	**$ 27,164**	$ 18,899
Budgetary Financing Sources		
Appropriations used	**98,172**	46,646
Non-exchange revenue	-	-
Transfers-in/out without reimbursement	**29,025**	45,826
Other Financing Sources		
Imputed financing from costs absorbed by others	**26,911**	27,627
Other—Revenue from excess collections	**93,434**	(18,386)
Total Financing Sources	**247,542**	101,713
Net Cost of Operations	**(146,471)**	(93,448)
Net Change	**101,071**	8,265
Cumulative Results of Operations	**$ 128,235**	$ 27,164
Unexpended Appropriations		
Beginning Balance	**$ 254,027**	$ 193,694
Adjustments:		
Change in accounting principle	-	(2,838)
Beginning Balance, as adjusted	**254,027**	190,856
Budgetary Financing Sources		
Appropriations received	**133,414**	109,817
Appropriations used	**(98,172)**	(46,646)
Total Budgetary Financing Sources	**35,242**	63,171
Total Unexpended Appropriations	**289,269**	254,027
Net Position	**$ 417,504**	$ 281,191

*For a complete set of financial statements and notes, see Chapter 3, "Financial Statements and Auditors' Report," in the *FY 2008 Performance and Accountability Report*. This report can be accessed at http://www.nrc.gov.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

U.S. NUCLEAR REGULATORY COMMISSION
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT
STATEMENT FOR FY 2008

The U.S. Nuclear Regulatory Commission's (NRC) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The NRC conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, and in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2008, was operating effectively and no material weaknesses were found in the design or operation of internal control.

In addition, the NRC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of the evaluation, the NRC can provide reasonable assurance that NRC's internal control over financial reporting as of June 30, 2008, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Dale E. Klein
Chairman
U.S. Nuclear Regulatory Commission
November 14, 2008

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (Integrity Act) mandates that agencies establish controls that reasonably ensure that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly accounted for and recorded. The Integrity Act encompasses program, operational, and administrative areas as well as accounting and financial management. It also requires the Chairman to provide an assurance statement on the adequacy of internal controls and on the conformance of financial systems with governmentwide standards.

FY 2008 Integrity Act Results

The NRC evaluated its internal control systems for the fiscal year ending September 30, 2008. The NRC is able to provide a statement of assurance, based on this evaluation, that the internal controls and financial management systems meet the objectives of the Integrity Act. The NRC has reasonable assurance that its internal controls are effective and that its financial management systems conform to governmentwide standards.

Resolution of FY 2007 Material Weakness

The FY 2007 independent evaluation of the NRC's Implementation of the Federal Information Security Management Act (FISMA) identified the following two significant deficiencies in the NRC's information technology (IT) security program:

- Only 2 of 30 operational NRC information systems had a current certification and accreditation, and only 4 out of the 11 systems used or operated by a contractor or other organization on behalf of the agency had a current certification and accreditation.
- Annual contingency plan testing was still not being performed for all of the NRC's operational information systems.

The NRC reported these two findings as one material weakness associated with the agency's overall IT security program under the provisions of the Integrity Act.

The Office of the Inspector General (OIG) performed an independent evaluation of the NRC's implementation of the FISMA for FY 2008. The independent evaluator no longer considers either of these items as significant deficiencies, since one-half of the systems now have a current certification and accreditation, and annual contingency plan testing has been completed for all systems. As a result of this evaluation, the NRC no longer considers this a material weakness.

Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Including Appendix A, "Internal Control over Financial Reporting"

In FY 2006, the NRC implemented the requirements of the Office of Management and Budget revised Circular A-123, which defined and strengthened management's responsibility for internal control in Federal agencies. The revised Circular included updated internal control standards. A new section, Appendix A, "Internal Control over Financial Reporting," required Federal agencies to assess the effectiveness of internal control over their financial reporting and to prepare a separate statement of assurance as of June 30 every year.

In FY 2008, the NRC continued its assessment of internal control over financial reporting. The scope of financial reports, materiality values, risk assessments, key processes, and key controls was reevaluated. A 3-year rotational testing plan was adopted in FY 2007. Three of the original nine key processes were determined to be significant enough to be included in the testing each year of the 3-year cycle. The remaining six key processes will be tested once in the 3-year cycle, two each year. Based on the results of this evaluation, the NRC can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2008, and that the evaluation found no material weaknesses in the design or operation of the internal controls over financial reporting.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (Improvement Act) requires each agency to implement and maintain systems that comply substantially with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the standard general ledger at the transaction level. The Improvement Act requires the Chairman to determine whether the agency's financial management systems comply with the Improvement Act and to develop remediation plans for systems that do not comply.

FY 2008 Improvement Act Results

As of September 30, 2008, the agency's financial management systems are in substantial compliance with the Improvement Act, except for one system which is in substantial noncompliance because of a FISMA finding related to a lack of current certification and accreditation. The NRC plans to complete the certification and accreditation activities by March 31, 2009, and to request an authority to operate.

Prompt Payment

The Prompt Payment Act requires Federal agencies tomake timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2008, the NRC paid 93 percent of the 10,368 invoices subject to the Prompt Payment Act on time (See Figure 15). The NRC incurred $20,852 in interest penalties during FY 2008.

Improper Payments

The NRC remains at low risk of making improper payments. At the present time, the NRC's payments consist of commercial vendor, interagency, and travel reimbursements. The NRC monitors and reports improper payments within its programs and continues to evaluate internal controls guarding against improper payments. The NRC also continues to perform annual risk assessments for each of these areas. Based on the FY 2008 risk assessments, the number and amount of improper payments fall below

Figure 15
PROMPT PAYMENT
(Percentage)

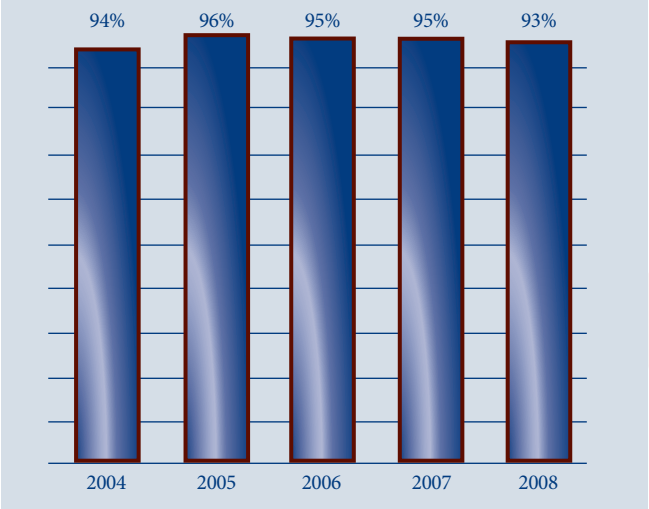
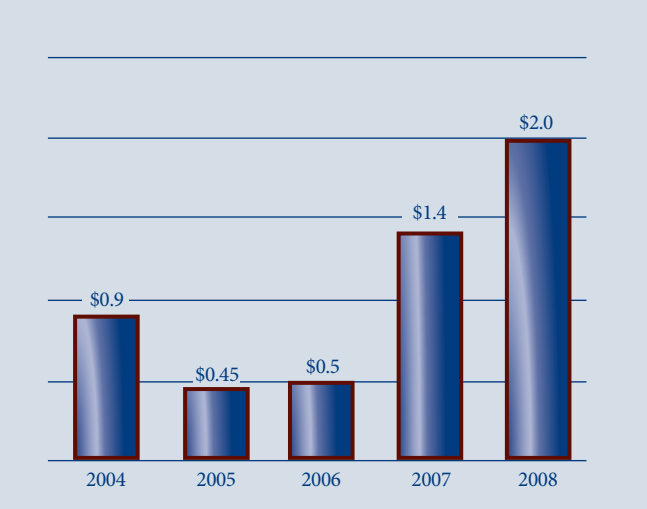


Figure 16
DELINQUENT DEBT
(In Millions)



the external reporting requirement established by OMB guidance on what is considered a significant risk. The NRC awards less than $500 million in annual contracts, and, therefore, is not subject to annual reporting under the Recovery Auditing Act. The Federal Personnel/Payroll System, as the system of record for payroll disbursements, is responsible for monitoring and reporting on any improper payroll-related payments.

Debt Collection

The Debt Collection Improvement Act enhances the ability of the Federal Government to service and collect debts. The agency's goal is to maintain the level of delinquent debt owed to the NRC at year end to less than 1 percent of its annual billings. The NRC continues to meet this goal, and at the end of FY 2008, delinquent debt was $2.0 million (See Figure 16). The NRC continues to pursue the collection of delinquent debt and refers all eligible debt over 180 days delinquent to the Treasury for collection.

Biennial Review of User Fees

The Chief Financial Officers Act requires agencies to conduct a biennial review of fees, royalties, rents, and other charges imposed by agencies and to make revisions to cover the program and administrative costs incurred. Each year, the NRC revises the hourly rates for license and inspection fees and adjusts the annual fees to meet the fee collection requirements of the Omnibus Budget Reconciliation Act of 1990, as amended. The most recent changes to the license, inspection, and annual fees are described in the *Federal Register* (73 FR 32385, June 6, 2008).

To more appropriately recover actual costs, the NRC revised the fees and charges for the Material Access Authorization Program, for the Information Access Authorization Program, and for administrative charges for delinquent debt. The NRC conducted no other reviews this year.

Inspector General Act

The agency has established and continues to maintain an excellent record in resolving and implementing Office of the Inspector General open audit recommendations. Please refer to the NRC's FY 2008 Performance and Accountability Report, Appendix B for details.

INSPECTOR GENERAL'S TRANSMITTAL LETTER

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001

OFFICE OF THE
INSPECTOR GENERAL

December 19, 2008

MEMORANDUM TO: Chairman Klein

Hubert T. Bell

FROM: Hubert T. Bell
Inspector General

SUBJECT: TRANSMITTAL OF THE INDEPENDENT AUDITOR'S REPORT ON THE CONDENSED FINANCIAL STATEMENTS (OIG-09-A-05)

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, Revised, June 3, 2008, strongly encourages all entities producing a Performance and Accountability Report (PAR) to prepare a Citizens' Report. The Citizens' Report should include the most important performance and financial information contained in the PAR in a brief, user-friendly format that is easily understood by a reader with little technical background in these areas. The purpose of this memorandum is to transmit Urbach Kahn & Werlin, LLP (UKW) Auditor's Report on the Condensed Financial Statements included in the Citizens' Report. The Nuclear Regulatory Commission's Citizens' Report includes comparative financial statements for FY 2008 and FY 2007. Therefore, it is important to note that R. Navarro & Associates, Inc. performed the audit of NRC's FY 2007 financial statements.

UKW is responsible for the attached unqualified auditor's opinion, dated November 7, 2008. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight of UKW's work, as differentiated from an audit in conformance with *Government Auditing Standards,* was not intended to enable us to express, and accordingly we do not express, an opinion on the condensed financial statements included in the Citizens' Report. However, OIG's oversight of UKW's work disclosed no instances where UKW did not comply with applicable auditing standards. OIG performed similar oversight of R. Navarro & Associates, Inc.'s audit of NRC's FY 2007 condensed financial statements.

We appreciate the cooperation provided by NRC staff.

Attachment: As stated

cc: Commissioner Jaczko
Commissioner Lyons
Commissioner Svinicki
V. Ordaz, OEDO

Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON THE CONDENSED FINANCIAL STATEMENTS

Chairman Dale E. Klein
United States Nuclear Regulatory Commission

We have audited the balance sheet of the United States Nuclear Regulatory Commission (NRC) as of September 30, 2008, and the related statement of net cost, statement of changes in net position and statement of budgetary resources (Principal Statements) for the fiscal year then ended. Our audit was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. In our report dated November 7, 2008, we expressed an unqualified opinion on those Principal Statements. The Principal Statements of NRC as of and for the year ended September 30, 2007, were audited by other auditors, whose report, dated November 7, 2007, expressed an unqualified opinion on the fiscal year 2007 financial statements.

As discussed in note 1 to the fiscal year 2008 Principal Statements referred to above, NRC revised its methodology for accounting for accounts payable as of September 30, 2008. We have not determined what impact, if any, this revised methodology may have had on the Principal Statements if applied in the prior year.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated in all material respects in relation to the Principal Statements referred to above from which it has been derived.

In accordance with *Government Auditing Standards,* our report on the Principal Statements referred to above includes a report on the effectiveness of internal control over financial reporting and a report on compliance with laws and regulations for the fiscal year ended September 30, 2008. In those reports, we identified a significant deficiency related to procedures for determining accrued accounts payable and a substantial noncompliance with the Federal financial management system requirements under the Federal Financial Management Improvement Act related to certification and accreditation of the License Fee Billing System. Those reports are integral parts of a financial statement audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Urbach Kahn & Werlin LLP

Arlington, Virginia
November 7, 2008

NRC FORM 335 (9-2004) NRCMD 3.7

U.S. NUCLEAR REGULATORY COMMISSION

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(See instructions on the reverse)

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Washington, DC 20555-0001

9. SPONSORING ORGANIZATION - NAME AND ADDRESS *(If NRC, type "Same as above"; if contractor, provide NRC Division, Office or Region, U.S. Nuclear Regulatory Commission, and mailing address.)*

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10. SUPPLEMENTARY NOTES

11. ABSTRACT *(200 words or less)*

The FY 2008 NRC Citizens' Report provides performance results and audited financial statements that enable Congress, the President, and the public to assess the performance of the agency in achieving its mission and stewardship of its resources. The report contains a concise overview, Management Discussion and Analysis, as well as performance and financial sections.

12. KEY WORDS/DESCRIPTORS *(List words or phrases that will assist researchers in locating the report.)*

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U.S.NRC
United States Nuclear Regulatory Commission
Protecting People and the Environment

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